SaskTel

Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2005

President's Message

SecurTek is a Saskatchewan success story. Partnering with independent local businesses, we have been providing quality security monitoring services to our customers since 1999. A wholly-owned subsidiary of SaskTel, SecurTek has expanded across Western Canada and into select markets in Eastern Canada. Today, SecurTek is the largest monitoring company in Saskatchewan serving over 60,000 residential and commercial customers from its base in Yorkton, Saskatchewan.

With our revenues reaching nearly $15 million for 2005, representing an increase of $800 thousand over 2004, our financial position is strong and improving. Equally important, we employ 93 personnel at our head office in Yorkton, providing annual salaries and wages of $2.5 million into the local economy.

But SecurTek's positive role in the economy reaches beyond Yorkton. Through our established dealer program, we partner with 107 independently owned firms, including retail dealers, wholesale dealers, and servicing dealers. Fourteen of our dealers are Saskatchewan-based firms, and each of them prospers from the relationship, providing income and employment opportunities across the province.

The monitoring industry is extremely competitive. SecurTek is well positioned to thrive in this competitive market due to the strength of its dealer network of independent local businesses, the skill and dedication of its employees, the company's ability to adapt to technology, and its financial stability as a SaskTel subsidiary.

I would like to thank our dedicated employees and management team, our authorized dealers, and especially our customers for their contributions in making 2005 a successful year.

Daryl Silzer,
President and CEO, SecurTek Monitoring Solutions

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of SecurTek Monitoring Solutions Inc. as at December 31, 2005 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 7, 2006

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004
Operating revenues	**$14,978**	$14,169
Operating expenses		
Operations	**9,436**	8,993
Depreciation and amortization	**4,847**	4,679
	14,283	13,672
Income from operations	**695**	497
Interest expense	**495**	421
Net income	**$200**	$76

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2005	2004
Deficit, beginning of year	**$(3,751)**	$(3,827)
Net income	**200**	76
Deficit, end of year	**$(3,551)**	$(3,751)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004
Assets		
Current assets		
Cash	$2,099	$2,498
Accounts receivable	1,329	1,314
Current portion of financing leases receivable (Note 3)	602	967
Inventory	38	-
Prepaid expenses	78	101
	4,146	4,880
Property, plant and equipment (Note 4)	1,707	1,240
Customer accounts (Note 5)	27,558	29,386
Long term portion of financing leases receivable (Note 3)	218	414
Deferred development costs (Note 6)	26	69
	$33,655	$35,989
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$725	$798
Deferred revenue	1,219	1,297
	1,944	2,095
Long-term debt (Note 7)	17,123	19,506
	19,067	21,601
Shareholder's equity		
Share capital and contributed surplus (Note 8)	18,139	18,139
Deficit	(3,551)	(3,751)
	14,588	14,388
	$33,655	$35,989

See accompanying notes

On behalf of the Board

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Net income	**$200**	$76
Items not affecting cash (Note 9)	**4,965**	5,101
Other operating items (Note 10)	**(181)**	181
	4,984	5,358
Financing activities		
Repayment of long-term debt (Note 7)	**(2,500)**	(250)
Contributed surplus	-	6
	(2,500)	(244)
Investing activities		
Property, plant and equipment expenditures	**(1,038)**	(297)
Customer accounts	**(2,406)**	(3,440)
Investment in financing leases receivable	**(310)**	(989)
Payments received on financing leases receivable	**871**	951
	(2,883)	(3,775)
Increase (decrease) in cash	**(399)**	1,339
Cash, beginning of year	**2,498**	1,159
Cash, end of year	**$2,099**	$2,498
Interest Paid	**$499**	$421

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) providing real time monitoring solutions in select markets in Canada.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, SecurTek Partnership No. 8. All significant intercompany transactions and balances have been eliminated.

Inventories

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost, including materials, services and direct labour. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Plant and equipment	4 to 5 years
Customer premise equipment	10 years
Office furniture, equipment and leaseholds	4 to 5 years

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Customer accounts

Customer accounts acquired individually, with a group of other assets, or through the Corporation's authorized dealers are recorded at cost. Customer accounts are amortized over 10 years using the straight line method. The Corporation annually reviews the amortization method and useful lives of customer accounts.

Deferred development costs

Business development costs that were incurred during the pre-operating phase are deferred and amortized over five years.

Revenue recognition

Revenues from the monitoring of alarm systems are recognized when services are provided. Installation revenue related to equipment leased to customers under direct financing leases is recorded as unearned finance income and amortized over the leased term.

Employee future benefits

The Corporation has defined contribution plans providing pension benefits for its employees. Defined contribution plan costs are recognized as employees render services during the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the recoverability of customer accounts and the underlying determinations of average customer account life. Significant changes in the assumptions could materially impact the results reported in future periods.

Note 3 – Financing leases receivable

Customer financing on leases is provided over a three year period after which time the ownership transfers from the Corporation to the customer.

	2005	2004
	(Thousands of dollars)	
Financing leases receivable	$875	$1,418
Less unearned revenue	55	37
	820	1,381
Less current portion of leases receivable	602	967
	$218	$414

Notes to Consolidated Financial Statements

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Plant and equipment	**$3,132**	**$2,224**	**$908**	$1,211
Customer premise equipment	**695**	**28**	**667**	0
Office furniture, equipment and leaseholds	**638**	**506**	**132**	29
	$4,465	**$2,758**	**$1,707**	$1,240

Depreciation and amortization for the year totalled $571,302 (2004 - $574,879).

Note 5 – Customer accounts

	Cost	Accumulated amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Customer accounts	**$44,082**	**$16,524**	**$27,558**	$29,386

Amortization during the year totalled $4,233,070 (2004 - $3,972,927).

Note 6 – Deferred development costs

	Cost	Accumulated amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Deferred development costs	**$865**	**$839**	**$26**	$69

Amortization during the year totalled $42,170 (2004 - $131,283).

Note 7 – Long-term debt

Amounts are due to Holdco and bear interest at the Province of Saskatchewan ninety-day borrowing rate of 3.25% (2004 – 2.43%), with no fixed repayment terms.

Notes to Consolidated Financial Statements

Note 8 – Share capital and contributed surplus

	2005	2004
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 6,150,000 shares	**$6,150**	$6,150
Contributed surplus	**11,989**	11,989
	$18,139	$18,139

Note 9 – Items not affecting cash

	2005	2004
	(Thousands of dollars)	
Interest accrued on long-term debt	**$118**	$422
Depreciation and amortization	**4,847**	4,679
	$4,965	$5,101

Note 10 – Other operating items

	2005	2004
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	**$(15)**	$304
Inventory	**(38)**	-
Prepaid expenses	**23**	(5)
Accounts payable and accrued liabilities	**(73)**	(164)
Deferred revenue	**(78)**	46
	$(181)	$181

Note 11 – Financial instruments

Fair value

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of financing leases receivable and long term debt approximate their fair value. Fair value is determined as the amount that could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities.

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Note 12 – Employee Benefit Plans

The Corporation has two defined contribution pension plans. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2005 pension cost and employer contributions are $88,282 (2004 - $26,510).

Note 13 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions, other than those noted below, with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2005	2004
	(Thousands of dollars)	
Operating revenues	**$97**	$62
Operating expenses	**1,698**	1,505
Interest expense	**495**	421
Accounts payable and accrued liabilities	**174**	104
Accounts receivable	**614**	577

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Notes to Consolidated Financial Statements

Note 14 – Commitments and contingencies

The future minimum lease payments under the operating leases of the Corporation in each of the next five years are as follows:

	(Thousands of dollars)
2006	$239
2007	237
2008	-
2009	-
2010	-

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 15 – Comparative figures

Certain of the 2004 figures have been reclassified to conform to the current year's presentation.